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HSBC Czech Republic Manufacturing PMI®

Manufacturing business conditions stabilise in February

Key findings:

- Czech Manufacturing PMI registers 49.9
- New orders rise for first time since March 2012
- Output and backlogs of work broadly stable

HSBC *PMI*° data indicated that the Czech manufacturing sector edged closer to recovery in February. Overall business conditions were broadly stable compared with January, following a sequence of deterioration that stretched back to last April. New orders increased for the first time since March 2012, albeit marginally, while output was flat. Manufacturers continued to cut workforces and purchases of new inputs, however, and cost pressures remained strong.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the sector.

Registering 49.9 in February, the PMI signalled a broad stabilisation in business conditions in the goods-producing sector. The headline index rose for the second month running from December's 41-month low, and was the highest since its last positive reading in March 2012. The upward movement in the PMI reflected four of its five components, the exception being stocks of purchases.

The main driving force behind the stabilisation of the goodsproducing sector mid-way through the first quarter was a rise in the volume of new orders received. This followed a tenmonth sequence of contraction, the second-longest in the survey history. That said, the rate of expansion was only marginal, and new export orders registered another fall (albeit slight). New export business has declined for the past 16 months, the longest sequence in the survey history (albeit one of a much weaker severity than that seen in 2008-09).

The increase in new business was insufficient to generate overall growth in production in February, with output little-changed from January. Similarly, backlogs of work were largely static compared with the opening month of 2013.

Reflecting an uncertain outlook, Czech manufacturers continued to shed staff and cut purchasing activity, albeit at slower rates in both cases. The decline in employment was the weakest in the current seven-month sequence, while input volumes were reduced at the slowest rate since last July.

Stocks of pre- and post-production goods both continued to contract in February, at broadly similar rates. This extended the current phase of destocking in the manufacturing sector to 19 months.

Average input prices rose sharply in February, with the rate of inflation little-changed from January's four-month high. Firms reported higher prices for energy, wood and utilities, and also rising sales taxes. Meanwhile, prices charged for final manufactured goods declined for the thirteenth month in a row, reflecting competitive pressures in the sector.



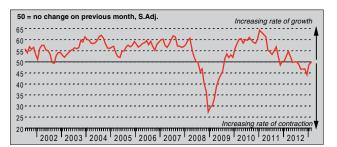
The HSBC Czech Republic *Purchasing Managers' Index*® (*PMI*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the *PMI* below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index*® and *PMI*® are registered trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

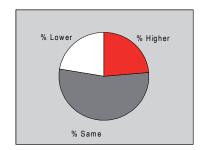




Output Index

Q. Please compare your production/output this month with the situation one month ago.

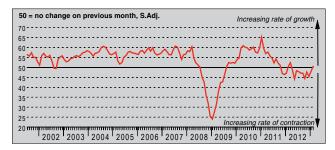


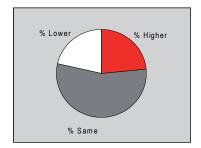


Latest survey data indicated a broad stabilisation of manufacturing output in the Czech Republic, following a six-month sequence of contraction. The seasonally adjusted Output Index registered close to the no-change mark of 50.0, rising for the second month running from December's 42-month low. Production rose at 24% of respondents, mainly attributed to gains in new orders.

New Orders Index

Q. Please compare the level of new orders received this month with the situation one month ago.

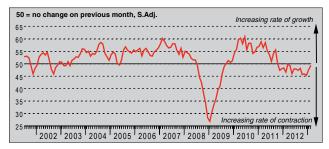


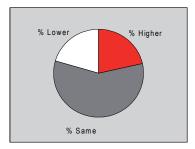


The volume of new work received by Czech goods producers rose in February, as signalled by the seasonally adjusted New Orders Index registering above the neutral threshold of 50.0. It was the first expansion signalled since March 2012. Anecdotal evidence showed signs of improving market conditions both domestically and for exports. That said, the overall rate of new order growth was weak.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.



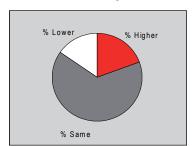


The current sequence of falling new export orders in the Czech manufacturing sector was extended to a sixteenth month in February. That said, the rate of decline slowed further during the month, to a marginal pace. That contrasted with the situation in December, when new export work fell at the fastest rate in three-and-a-half years.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



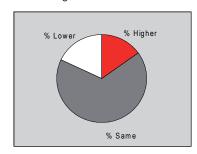


The level of outstanding business held by Czech manufacturers was broadly unchanged from one month previously in February. That followed a ten-month sequence of falling backlogs of work. Around one-in-five goods producers reported rising backlogs, compared with 15% that registered declines.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

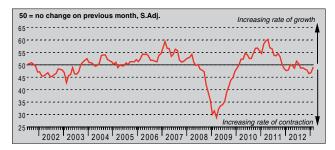


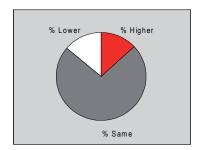


The level of finished goods in stock at Czech manufacturers declined further in February. The ongoing contraction now stretches to 19 months, although the pace of decline in the latest period was weaker than the average over this sequence. Some firms reported higher sales than output, and efforts to cut warehouse inventory levels.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.



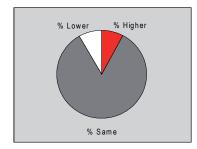


Employment in the Czech goods-producing sector declined for the seventh month in succession in February. Of the 14% of survey respondents to report lower workforces than in January, a number linked this to low production volumes, cuts to temporary staff and the non-replacement of leavers. The overall rate of job shedding was, however, the weakest in the current sequence of decline.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



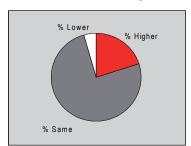


Output prices charged by Czech manufacturers declined for the thirteenth successive month in February. That said, the rate of reduction slowed for the second month running to the weakest since June 2012, as only 8% of survey respondents reported engaging in price discounting. Lower output prices were primarily linked to competitive pressures in the sector.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



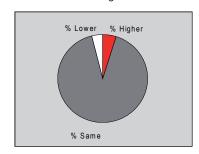


Average input prices continued to rise at a marked rate in February. The seasonally adjusted Input Prices Index was little-changed from January's four-month high, and was greater than its long-run average of 55.6. One-fifth of the survey panel reported higher input prices during the month, linked to rising energy costs, sales taxes, utilities and wood products.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



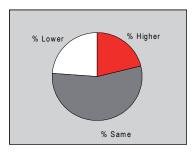


The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 in February, signalling longer delivery times from vendors supplying Czech manufacturers. The extent of the deterioration in performance, though moderate overall, was the greatest since September. Some firms reported low stock levels at suppliers.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

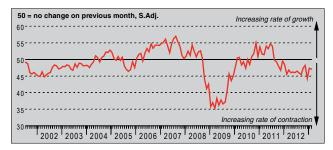


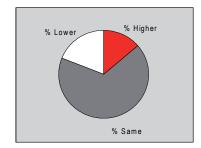


Purchasing activity in the Czech manufacturing sector declined for the eleventh successive month in February, and has now fallen 15 times in the past 16 months. That said, the seasonally adjusted Quantity of Purchases Index moved up further from December's 42-month low, to the highest since last July. The latest figure was indicative of only a modest contraction in input volumes.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





Survey data indicated a nineteenth successive monthly drop in the volume of inputs held in stock by Czech goods producers. The rate of contraction accelerated slightly since January, but remained weaker than the average for 2012. Anecdotal evidence linked falling warehouse levels to low workloads and efforts to improve productivity.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index[®] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 250 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Czech GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index[®] (PMI[®]) is a composite index based on five of the individual indexes with the following weights derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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